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SUBJECT: PANAMA - 2006 INVESTMENT CLIMATE STATEMENT

Ref: 05 State 202943

A.1. OPENNESS TO FOREIGN INVESTMENT

¶1. The resolution of a number of investment dispute cases in recent years opened the way for the April 2004 start of bilateral negotiations for a free trade agreement between the United States and Panama.

¶2. Traditionally, Panama has maintained a rather liberal regime for foreign investment and investment in financial instruments. The government and the Panamanian business community actively encourage foreign direct investment (FDI). Laws in general make no distinction between domestic and foreign companies. In 1998, the GOP enacted the Investment Stability Law, which, among other things, guarantees foreign investors, who invest at least two million dollars in Panama, equal treatment under the law to that of their domestic competition.

¶3. The Panamanian Vice Ministry of Foreign Trade (VICOMEX) is the principal entity responsible for promoting foreign investment. It provides investors with information, expedites specific projects, leads investment-seeking missions abroad, and supports foreign investment missions to Panama. However, depending on the character of the planned investment, several different governmental entities may have a passive or active interest in the investment in terms of setting its parameters of operation, particularly within relevant regulations, land use, employment, special investment incentives, business licensing, etc. There is no formal investment screening process by the GOP, although the government does tend to monitor large foreign investments.

¶4. The GOP does impose some limitations on foreign ownership, such as in the retail and media sectors where ownership must be Panamanian. Foreign retailers, however, have been able to work within the confines of Panamanian law primarily through franchise arrangements. Some professions, such as medical practitioners, lawyers, and custom brokers, are reserved for Panamanian citizens. The GOP also requires foreigners in various sectors to obtain from the government explicit permission to work, but to Embassy's knowledge these restrictions have not hindered U.S. firms operating in Panama. The U.S. government is seeking to achieve meaningful market openings for the provision of services within the context of the ongoing free trade negotiations.

¶5. There is no de jure discrimination against U.S. or other foreign investors in most sectors. A domestic investment protection law was enacted in 1991 and remains in force;

however, it has not yet been invoked or used in contravention of U.S. investment. There is a constitutional prohibition against foreign land ownership within ten kilometers of the national border or on an island. Neither Panamanian citizens nor foreigners may own beaches or the shores of rivers or lakes. Law 2 was enacted in 2006 to foster tourism investment on islands, beachfront and government properties through a concession, requiring projects to have an environmental impact study, financial support, bonds, etc. Builders and investors may rent such lands for 40 years, via the Ministry of Economy and Finance, extendable for an additional period of 30 years. When there is a major investment with potential job creation, this tourism incentive law expands this period for up to 90 years.

¶6. Panama experienced a boom in foreign investment between 1996 and 1998 as a result of former President Balladares' privatization and modernization program. Foreigners, including U.S. firms, participated actively and successfully in the privatizations of ports, electrical generators, and telecommunications firms. The conduct of major public bids and tenders for some public sector projects raised concerns about the openness and transparency of the process and the responsiveness of authorities to participants. U.S. companies complained that some bidding processes lacked transparency.

¶7. The Panamanian government has "corporatized" Tocumen International Airport as a private entity with all shares owned by the GOP. The airport is undergoing a \$70 million expansion of the passenger and cargo terminals. The government has pledged not to privatize its inefficient water and sewage utility, its electric transmission company, or the Caja de Seguro Social (Social Security System).

¶8. Panama's privatization framework law does not distinguish between foreign and domestic investor participation in prospective privatizations. The law calls for pre-screening of potential investors or bidders in certain cases to establish technical viability, but nationality and Panamanian participation are not criteria.

¶9. Following the privatizations of the late 1990s, Panama's FDI dropped to only \$98.6 million in 2002, primarily as a result of losses by major banks and the drop-off in privatizations. However, FDI rebounded dramatically to nearly \$800 million in 2003 and over by \$1 billion in 2004 as a result of major investments in port expansions, Colon Free Zone profits, the sale of shares of a telecommunication company, dividends from the electrical companies, as well as a resurgence of the banking sector. There are announced projects in the energy sector, golf courses, residential and commercial construction (including the planned 102-story "Ice Tower," which would be the tallest building in Latin America), and a new megaport near the Pacific entrance of the Panama Canal. A major challenge for the Panamanians is scheduling a referendum for the canal expansion and achieving a positive outcome.

¶10. The Panamanian government developed some of the U.S. government properties transferred to Panama by the United States from 1979 through December 1999. The commuter airport development at the former Albrook Airfield, now known as Marcos A. Gelabert Airport, has been one of the most successful ventures. Other projects now underway include major tourist projects at the former Fort Amador and at Farfan on the Pacific, as well as a museum of ecology designed by world-renowned architect Frank Gehry. On the former Howard Air Base, Dell Corporation opened a customer service call center in August 2003 that employs about 2000 people. Progress in the academic and research community (City of Knowledge) has been slow but steady. Several U.S. universities have located campuses in various former military installations as well as international and regional organizations.

¶11. Panamanian Law forbids monopolistic and anti-

competitive behavior. The Government of Panama passed in February 1996 an Antimonopoly Law, designed to prevent monopolistic practices and create a consumer protection authority. Although Panama's Free Competition and Consumer Affairs Commission (CLICAC) was set up to protect consumers against practices such as the sale of expired products to price gouging, it was widely viewed as ineffective and underfunded. In February 2006 the Torrijos Administration enacted by "decree law" the elimination of CLICAC and creation of a new "Authority for Consumer Protection and Defense of Competition." The GOP's aim is to create a more agile entity with greater autonomy and stronger capabilities to protect consumer rights by combatting false advertising, monopolistic practices, and unfair competition. The effectiveness of this new entity remains to be seen.

A.2. CONVERSION AND TRANSFER POLICIES

¶12. Panama has no legal restrictions on the transfer abroad of funds associated with or capital employed in an investment. There are no restrictions on capital outflows or convertibility. Panama uses the U.S. dollar as legal tender. Currency conversion therefore is not an issue. There is, therefore, no independent monetary policy in Panama. Inflation, bound by the U.S. dollar, is low and predictable. According to the IMF, "dollarized Panama has had significantly lower inflation (and inflation volatility) at a cost of more volatile GDP growth." Although inflation topped 3.5% during 2005, Panama's annual inflation averaged less than 3.2% over the previous 30 years. This apparent predictability enhances the attraction of foreign investment.

A.3. EXPROPRIATION AND COMPENSATION

¶13. The Embassy is unaware of any outright expropriation of property by the Panamanian government in recent years. Very few U.S. investors have alleged that irregular or illegal actions of some government entities, past and current, have resulted in "de facto" expropriation of their property. In October 2005, some 150 U.S. citizen residents of the Bocas del Toro area feared that a proposed new land titling law (Law 2) would strip them of the rights of possession they had acquired for lands where they build homes, hotels, and other improvements. Under previous law, rights of possession were transferable in this and other regions where formal land titles were either non-existent or problematic. Following concerns raised by various residents of the area and by the U.S. Embassy, the GOP subsequently enacted a revised Law 2 stipulating that none of the law's provisions shall affect rights of possession granted under previous law. It remains to be seen whether implementation of Law 2 ultimately avoids any "de facto" expropriation of lands held by U.S. citizens with rights of possession.

A.4. DISPUTE SETTLEMENT

¶14. Panama has a court and judicial system built around a civil code, rather than the Anglo-American system of reliance upon case law and judicial precedent. Fundamental procedural rights in civil cases are broadly similar to those available in U.S. civil courts, although some notice and discovery rights, particularly in administrative matters, may be less extensive than in the U.S. Judicial pleadings are not always a matter of public record, nor is the process always transparent.

¶15. The business community lacks confidence in the Panamanian judicial system as an objective, independent arbiter in legal or commercial disputes, especially when the case involves powerful local figures with political influence. When disputes with foreign investors arise, as they do from time to time, the investors often choose not to pursue remedies available to them via the court system. In a few cases the appearance of corruption has been so widely accepted as to constitute conventional wisdom. The decision by investors to avoid the court system is understandable, given massive case backlogs and the specter of corruption.

¶16. An increasingly popular and viable alternative for settling disputes is the Center for Mediation and Arbitration established by the Panamanian Chamber of Commerce. Depending on the issues there are other dispute resolution centers as the Panamanian Construction Chamber, and the Supreme Court. Rulings by arbitrators are generally fair and reasonable. In 1998, these rulings were given status as judicial rulings.

¶17. The GOP accepts binding international arbitration of disputes with foreign investors. Panama became a member of the International Center for the Settlement of Investment Disputes (ICSID) in 1996. The United States and Panama signed an amendment to the Bilateral Investment Treaty to incorporate Panama's membership into ICSID on June 1, 2000. This amendment took effect in May 2001. Panama also became a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA) in 1997.

¶18. Panama's bankruptcy law is antiquated and is under review to be adapted to modern business practices.

A.5. PERFORMANCE REQUIREMENTS/INCENTIVES

¶19. There are no legal performance requirements such as minimum export percentages or significant local procurement rules. There are special tax and other incentives for manufacturers to locate in an export-processing zone (EPZ). Official support for investment and business activity is especially strong for the Colon Free Zone (CFZ), the banking sector, the tourism sector, and EPZs. Companies in the CFZ pay no income taxes. Banks in Panama pay no tax on interest or other income earned outside Panama and withhold no tax on savings or fixed time deposits in Panama. Individual depositors do not pay taxes on time deposits. EPZs offer tax-free status, special immigration privileges, and license and customs exemptions to manufacturers who locate there.

¶20. Law 8 of 1994 offers tax and other incentives to investors in tourist industries. In 1997, the Panamanian government enacted legislation to promote the restoration of historical buildings and sites Panama City's old downtown area known as "Casco Viejo." Tourism incentive laws provide, among other measures, tax exemptions for vehicles and other designated goods imported for use in, or to build infrastructure for, the tourist sector. Similar incentives exist for the mining sector. Legislation affecting the mining sector is under review. Law 28 of 1995 extended national industry and export incentives. However, contracts that were created prior to Law 28 continue to receive the benefits of the previous incentives. In 1997, the GOP eliminated tariffs on fuel imported by electricity generators to promote privatization of the former state electric company. The government has gradually phased out tariff incentives that favor the importation of raw materials for further processing in Panama. The Torrijos Administration is also reviewing fiscal incentive programs as part of its overall fiscal reform.

A.6. RIGHT TO PRIVATE OWNERSHIP AND ESTABLISHMENT

¶21. With the exception of retail trade, the media, and a few professions, foreign and domestic entities have the right to establish, own, and dispose of business interests in virtually all forms of remunerative enterprise. Foreigners need not be legally resident or physically present in Panama to establish corporations or to obtain local operating licenses for a foreign corporation. Business visas (and even citizenship) are readily obtainable for significant investors. Banking, financial services, and the legal regime are receptive toward attracting foreign business.

A.7. PROTECTION OF PROPERTY RIGHTS

¶22. Some of Panama's business, corporate, and banking codes have been modernized and are, in general, enforced so as to

strengthen confidence in property rights. Mortgages, liens, and other security interests are recognized. The public property registry is undergoing expansion and modernization. Unique features of Panamanian law and practice in specific areas (including but not limited to banking, accounting requirements, formation and functioning of corporations, and taxation) make retention of local legal counsel highly advisable.

Intellectual Property Rights

123. Panama is a member of the World Intellectual Property Organization (WIPO), the Geneva Phonograms Convention, the Brussels Satellite Convention, the Universal Copyright Convention, the Bern Convention for the Protection of Literary and Artistic Works, the Paris Convention for the Protection of Industrial Property, and the International Convention for the Protection of Plant Varieties. In addition, Panama was one of the first countries to ratify the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, although the government has yet to introduce implementing legislation to put these treaties fully into force in Panama. Panama is not a signatory to the Patent Cooperation Treaty, Trademark Rights Treaty and the Madrid Protocol. Should Panama conclude a Free Trade Agreement with the United States, Panama would become a signatory to these agreements.

124. The legal framework for the protection of intellectual property rights (IPR) in Panama has improved significantly in recent years. The government passed an Anti-Monopoly Law in 1996 mandating the creation of commercial courts to hear anti-trust, patent, trademark, and copyright cases exclusively. Two district courts and one superior tribunal began to operate in June 1997 and have been adjudicating intellectual property disputes. IPR policy and practice in Panama is the responsibility of an Inter-institutional Committee for Intellectual Property (CIPI). This committee consists of representatives of six government agencies and operates under the leadership of the Vice-Minister of Commerce, who has delegated chairmanship to the head of the industrial property office. CIPI coordinates enforcement actions and develops strategies to improve compliance with the law, including organizing training and public awareness seminars, among other activities. In January 2003, the GOP designated an IPR-specific prosecutor with national authority, which has consolidated and simplified prosecution of those cases.

Copyrights

125. The National Assembly in 1994 passed a comprehensive copyright bill (Law 15), based on a World Intellectual Property Organization model. The law modernizes copyright protection in Panama, provides for payment of royalties, facilitates the prosecution of copyright violators, protects computer software, and makes copyright infringement a felony.

126. The Copyright Office has yet to introduce long-promised improvements to the Copyright Law to implement the new WIPO treaties (the WIPO Copyright Treaty and the WIPO Performances and Phonographs Treaty) and to establish new offenses, such as those needed for internet-based copyright violations and to enhance border measures.

Patents

127. Panama's Industrial Property Law (Law 35) went into force in 1996 and provides 20 years of patent protection from the date of filing. The Industrial Property Law provides specific protection for trade secrets. However, at least one pharmaceutical company has raised the alarm that these protections are not being respected by the office of the Ministry of Health that registers generic medicines,

though the Ministry is attempting to address the concerns.

Trademarks

¶28. Law 35 also provides trademark protection, simplifying the process of registering trademarks and making them renewable for ten-year periods. The law's most important feature is the granting of ex-officio authority to government agencies to conduct investigations and to seize materials suspected of being counterfeited. Decrees 123 of November 1996 and 79 of August 1997 specify the procedures to be followed by Customs and Colon Free Zone (CFZ) officials in conducting investigations and confiscating merchandise. In 1997, the Customs Directorate created a special office for IPR enforcement, followed by a similar office created by the CFZ in 1998. The Trademark Registration Office continued to undertake significant modernization in 2005 with the introduction of imaging and workflow automation of their processes and on-line application processing. This includes a website that allows applicants to track the status of their Trademark and Patent applications. A Customer Service Center is planned for ¶2006. The Trademark Registration Office claims to be the most advanced in the region, with 90% automation. This office reports that it cut trademark registration processing time in half during 2005, down from one year to six months. This office also reports that it has conducted classes on the importance of IPR protection at the Technical University of Panama and recently sponsored a National Inventor's Competition that brought inventors together with prospective investors and customers.

A.8. TRANSPARENCY OF THE REGULATORY SYSTEM

¶29. Panama's 1997 accession to the WTO, wholesale privatization, and overhaul of various laws that regulate economic activity created a fluid regulatory climate. Panamanian regulators have been exposed only recently to complex issues, many of them technical. Regulators' responsiveness to the concerns of those they regulate has been mixed, depending on the sector. U.S. businesses have complained of arbitrariness or a lack of responsiveness by officials responsible for issuing sanitary/phytosanitary (SPS) permits for the importation of agricultural products. They have also complained about unannounced and costly sanitary controls imposed upon arrival of various shipments of agricultural products that had previously been pre-cleared for importation. The application of new SPS requirements, based on re-interpretation of old regulations, has led to unforeseen increased costs on the part of importers and delays in bringing goods to market. Such SPS issues are being addressed through current bilateral free trade agreement negotiations between the U.S. and Panama. In response to complaints from the U.S. and several other agricultural exporters, the Torrijos Administration initiated steps in early 2006 to create an independent, entity to handle SPS and import permitting procedures in a science-based way consistent with Panama's WTO obligations.

¶30. Public Utilities and telecommunications industries long complained of slowness of Panama's Regulatory Entity ("Ente Regulador") in responding to competitive concerns or requests for information. In February 2006, the Torrijos administration enacted by "decree law" the elimination of the Ente Regulador and creation of a new "National Public Services Authority." The GOP's aim is to provide more effective oversight by separating administrative and regulatory functions related to water, electricity, and telecommunications providers. It is too early to tell whether this new Authority will, in fact, deliver improved regulation of public utilities. In the banking and finance sector, private entities generally give good marks to the Panamanian entities that regulate them, such as the Superintendent of Banks.

A.9. EFFICIENT CAPITAL MARKETS AND PORTFOLIO INVESTMENT

¶30. Panama's 1998 Banking Law regulates the country's financial sector. The law, which concentrates regulatory authority in the hands of a powerful and well-financed Superintendent, transforms the previously inadequate regime into one that is by and large able to meet international standards.

¶31. Traditional bank lending from the well-developed banking sector is relatively efficient and is the most common source of financing for both domestic and foreign investors, offering the private sector a variety of credit instruments. Panamanian interest rates closely follow international rates (i.e., the London Interbank Offered Rate - LIBOR), plus a country-risk premium. The rate on a domestic commercial loan averaged 8.2% in 2004 and increased slightly for 2005 (through September) to 8.5%. The six-month domestic deposit rate was 2.2% in 2004 and 2.7% in 2005 (through September). Total assets in Panama's banking system topped \$29 billion in December 2004 and grew to \$30.1 billion as of September 2005.

¶32. Early in 1999, Panama passed a securities law that established a National Securities Commission to regulate brokers, fund managers, and all matters related to the securities industry. The Commission began to function in early 2000. Some private companies, including multinational corporations, have issued bonds in the local securities market. Companies rarely issue stock on the local market and, when they do, they often try to issue shares with no voting rights. As a result, these stocks are less attractive than those with voting rights. Moreover, investor demand is generally limited because of the small pool of persons, companies, and investors with the resources to invest.

¶33. Interest from fixed bank deposits and certain bonds are tax-exempt. There is a 10% withholding tax on dividends, although capital gains from the sale of equities listed on the Panamanian exchange are tax exempt. Cross-shareholding or stable shareholder arrangements, designed to restrict foreign investment through mergers and acquisitions, do not exist. There are no restrictions on, nor practical measures to prevent, hostile foreign investor takeovers, nor are there regulatory provisions authorizing limitations on foreign participation or control or other practices to restrict foreign participation. There are no government or private sector rules to prevent foreign participation in industry standards-setting consortia.

¶34. Financing for consumers is also relatively open, as mortgages, credit cards and personal loans, even to those earning modest incomes, are widely available on terms similar to those in the U.S.

A.10. POLITICAL VIOLENCE

¶35. Panama's Constitution provides for the right of peaceful assembly, and the Government generally respects this right. No authorization is needed for outdoor assembly, although prior notification for administrative purposes is required. Throughout much of the year, police showed restraint and professionalism while monitoring large protests by students, political activists, and workers.

¶36. Political violence in Panama since the end of the Noreiga era in 1989 is not common, but there are exceptions. Between April and June 2005, Panamanian police forces peacefully subdued large, potentially violent nation-wide protests against Social Security reforms with few complaints of use of force. A local protest against utility rate hikes in Bocas del Toro in October 2004 left 24 PNP officers wounded and ended with charges of police brutality by the protesters. September 2003 protests spurred by the ouster of Social Security Director Juan Jovan turned violent when construction workers led by SUNTRACS labor union attacked police. In 2002, there were several public demonstrations, including a major public protest against corruption in Panama City. Several times during the year, rural groups

protested against the presence of Panama Canal authorities in the watershed and potential expansion of the Canal. In August 2002, rioting broke out in Colon for two days, ostensibly to protest persistently high unemployment, halting commerce and causing minor property damage.

¶37. Two high-profile incidents in 2001 were triggered by the government's decision to allow bus owners to raise fares and by the delay in raising the minimum wage (which was raised in August 2003). The former led to weeklong riots that caused over 20 injuries, hundreds of arrests, and sporadic looting in the capital. Opposition to the proposed privatization of the state water utility in 1998 also led to vociferous, but generally nonviolent, protests. The lack of economic opportunities, a high unemployment rate (officially at 9.6% as of late 2005, but much higher in certain areas), and a growing use of illicit drugs have been cited as the chief causes of crime.

A.11. CORRUPTION

¶38. Panama is a member of the Organization of American States (OAS) Inter-American Convention Against Corruption (IACC), but not a signatory to the OECD Convention on Combating Bribery. Panama's submission to the IACC lacks empirical examples of how its anti-corruption laws have been applied. The suspicion that anti-corruption laws are not applied rigorously feeds the concern that government enforcement bodies, such as the Comptroller General's and the Attorney General's offices, have historically been ineffective in pursuing and prosecuting those accused of corruption, particularly in high-profile cases. However, the Torrijos Administration has taken steps to permit official investigation of corruption cases involving public officials and the public release of information regarding government activities and expenditures. Constitutional reforms that permit the Supreme Court to decide whether to investigate or indict legislators while in office were implemented on November 15, 2004. The government has not acted to dismantle Panama's dictatorship-era libel and contempt laws, which often are used to punish whistleblowers, while those accused of acts of corruption are seldom prosecuted and almost never jailed. Panama's government lacks strong systemic checks and balances that incentivize accountability. The lack of a strong professionalized career work force in Panama's public offices also hinders systemic change.

¶39. Allegations of corruption have been a habitual aspect of the political give and take in Panama throughout its history. However, complaints by American firms about allegedly corrupt judicial and governmental decisions prejudicial to their interests remain problematic. In 2005, the Torrijos Administration successfully reversed a deal struck between the Moscoso Administration to Panama Ports Company (PPC) that would have enabled PPC to walk away from \$1.4 billion in payments to Panama as part of a 40-year port concession agreement. Amid allegations of corruption in the Moscoso-PPC deal, the Torrijos Administration successfully renegotiated new terms for the agreement with PPC that effectively erased the Moscoso-PPC deal.

¶40. Since taking office in September 2004, the Torrijos Administration has taken several steps toward following through on its "zero tolerance" anti-corruption campaign, including the launch of investigations into the finances of several prominent figures in the Moscoso Administration. The GOP rescinded former President Moscoso's June 2002 decree that impeded enforcement of the January 2002 Transparency Law. Moscoso's decree imposed regulations that hindered access to information on public entities. In addition, President Torrijos established a "National Council for Transparency Against Corruption" that makes recommendations to the President, but the Council's influence on the administration is not strong. Meanwhile, several high-profile cases remain unresolved by the Panamanian courts. The Torrijos Administration also passed a package of fiscal and social security reforms through the National Assembly that included increased transparency measures.

¶41. Corruption in Panama's Supreme Court remains a source of public concern. In March 2005, four Court magistrates hurled accusations of corruption against each other, provoking wide-spread public demands for the dismissal of all nine justices. In response, President Torrijos created a State Justice Commission to recommend improvements to the administration of justice, mainly in the areas of transparency, efficiency and public accessibility. The Commission released its report in October 2005, but thus far no long term substantial changes have been made. In November 2005, the National Assembly's Judicial Affairs Committee dismissed a complaint filed by NGO Alliance for Justice against eight of the nine magistrates for questionable rulings. Coincidentally, a day later the U.S. government revoked the visa of Supreme Court magistrate Winston Spadafora under section 212(f) of the Immigration and Nationality Act (regarding public corruption).

¶42. Although the GOP's efforts to combat public corruption have been lackluster, President Torrijos has appointed a number of technocrats and business people to several key cabinet-level positions, including the First Vice President and Foreign Minister (who signed an APEC declaration against corruption at the 2005 South Korea summit), the Attorney General (who serves a 10-year term), the Ministers of the Presidency; of Economy and Finance; of Commerce and Industries and the Comptroller General. Both the Attorney General and Comptroller General have made great efforts to improve the transparency of their organizations and pursue public corruption. For example, the Comptroller General launched a new website in late 2005, "Panama Compra" ("Panama Buys"), through which all GOP agencies are required to post their solicitations for procurement of goods and services.

¶B. BILATERAL TRADE AND INVESTMENT AGREEMENTS

¶42. Panama currently has two bilateral free trade agreements in force: one with El Salvador that entered into force on April 11, 2003, and the second with Taiwan that entered into force on January 1, 2004 (Taiwan's first such accord). In the 1990s, Panama had negotiated a framework for free trade negotiations with all five countries of Central America, although many of these are on hold. The GOP is currently negotiating a bilateral free trade agreement with the United States. Panama has concluded free trade agreement negotiations with Singapore and Chile. The GOP hopes to sign both pacts before April 2006. The Torrijos Administration also seeks to deepen Panama's trade integration with Andean and Mercosur countries. By regional standards, Panama has been a strong advocate of trade liberalization. Most recently, Panama joined with the U.S., Mexico, and Chile in pushing for progress on a Free Trade Area of the Americas (FTAA) at the November 2005 Summit of the Americas in Mar del Plata, Argentina. Panama's strong international thrust was also evidenced by the fact that it served as Secretariat for the Free Trade of the Americas from 2001-2003. On November 5, 2004, Panama announced it would start negotiations to join the G-3 consisting of Colombia, Venezuela, and Mexico. However, negotiations to formally join the G-3's commercial framework have not begun.

¶43. Panama has bilateral investment agreements with the United States, the United Kingdom, France, Switzerland, Germany, Taiwan, Canada, Argentina, Spain, Chile, Uruguay, the Czech Republic, Netherlands, Cuba, and Korea. Panama also has signed bilateral investment agreements with the Dominican Republic, Mexico and Ukraine but these have not yet entered into force. Commerce Ministry officials have said that there have been some exploratory talks toward investment agreements with other countries, but they acknowledge that these discussions have a lower priority than ongoing free trade negotiations. In 2000, the United States and Panama amended their Bilateral Investment Treaty to reflect Panama's joining the International Center for the Settlement of Investment Disputes (ICSID).

¶44. The governments of the United States and Panama signed a comprehensive Overseas Private Investment Corporation (OPIC) agreement in April 2000. Since the signing, some new investment has come to Panama aided by either OPIC's political risk insurance or its direct financing. Post expects that OPIC financing and political risk insurance will amplify any future investment growth trend, albeit currently stagnant, in the Panamanian market.

¶C. OPIC AND OTHER INVESTMENT INSURANCE PROGRAMS

¶45. The Overseas Private Investment Corporation (OPIC) has a bilateral agreement with Panama. OPIC offers both financing and insurance coverage against expropriation, war, revolution, insurrection, and inconvertibility for eligible U.S. investors in Panama. OPIC can insure up to US \$200 million per project for U.S. investors, contractors, exporters, and financial institutions. Financing is available for overseas investments that are wholly owned by U.S. companies or that are joint ventures in which the U.S. firm is a participant. Panama is a member of the Multilateral Investment Guarantee Agency (MIGA).

¶D. LABOR

¶46. Panamanian labor law, in requiring the Labor Ministry's permission to dismiss employees for "economic reasons" may act as a legal barrier to a firm wishing to reduce its workforce or repatriate its capital. If a firm is insolvent, the law also gives workers priority over all other non-secured creditors.

¶47. According to the GOP figures, Panama's non-indigenous labor force in 2003 was approximately 1.25 million, with 85% employed in the private sector and 15% in the public sector. Non-indigenous unemployment in 2003 officially declined from 14.1% to 13.4%, but Embassy believes this rate may be underestimated. Pockets of chronic high unemployment, notably in Colon, Panama's second city, continued. In February 2006, the GOP hiked Panama's minimum wage by 8% raising the monthly minimum wage from \$263 per month to \$284.

¶48. Labor unions hold some political influence in

Panamanian society and often protest in order to further their objectives.

¶49. While the Government of Panama has periodically revised its labor code, including a modest revision in 1995, it remains highly restrictive. Several sectors, including the Panama Canal Authority, the Colon Free Zone, public sector employees, and export processing zones/call centers are covered by their own labor regimes and all or portions of the Labor Code may not apply. Employers outside of these areas such as Tourism have called for greater flexibility, easier termination of workers, and the elimination of many constraints on productivity-based pay.

¶E. FOREIGN TRADE ZONES/FREE PORTS

¶50. Law 25 of 1996 provides for the development of "export processing zones" (EPZ's) as part of an effort to broaden the Panamanian manufacturing sector while promoting investment in former U.S. military bases transferred to Panama. The law also includes specific labor and immigration provisions that are more favorable than the current Panamanian labor code. The government also provides numerous tax incentives to companies that operate in EPZ's. Companies operating in these zones may import inputs duty-free if products assembled in the zones are to be exported. Of the thirteen registered EPZ's, most remain small and underdeveloped with only a few tenants. They are said to be facing difficulties combating Panama's high relative wages, low industrial base, and weak infrastructure particularly outside the Panama-Colon Corridor. Law 25 also provides for the development of call centers. There are 19 call center licenses to date; however, there are only one third

operating call centers most of them U.S. companies. Law 41 of 2004 provides for the development of "Panama Pacific Special Economic Area" in the former Howard Air Base to encourage investment, specifically regarding logistics, in the area.

1F. FOREIGN DIRECT INVESTMENT STATISTICS

See Appendices.

MAJOR FOREIGN INVESTORS

- AES Corporation
- American Airlines
- American Life Insurance Co.
- Banco Do Brasil
- Banco Cuscatlan
- Bavaria
- Boeing
- Bristol Laboratories International Corp.
- Burger King Corp.
- Cable and Wireless (U.K.)
- Chiriqui Land Company (Chiquita)
- Chevron-Texaco
- Citibank, N.A.
- Clientlogic
- Coastal Power
- Coca-Cola Bottling Co.
- Colgate Palmolive
- Compania Recreativos S.A. (CODERE)
- Continental Airlines
- Decameron Hotels
- Dell Computers
- Delta
- DHL
- El Paso Energy
- Exxon Corp.
- Evergreen Corp.
- Federal Express
- Glidden
- Goldstar Corp
- Grupo Poma (Salvador).
- Hong Kong Shanghai Bank Corp. (HSBC)
- Hospital Corporation of America
- Hutchison Port Holdings (Hong Kong)
- ICA (Mexico)
- Influent
- Johnson and Johnson
- Kansas City Southern Railway
- Kraft Foods, Inc.
- Maersk-Sealand
- Mail Boxes Etc.
- McCann-Erikson
- McDonald's Corporation
- Microsoft
- Mi-Jack Products
- Nabisco Brands Inc.
- NARS - National Asset Recovery Services, Inc.
- Nestle Company
- Chas. Pfizer & Company, Inc.
- Panasonic Latin America
- Phillip Morris, Inc.
- PSINet
- PYCSA, S.A.
- Samsung Electronics
- Schering Corp. International
- Shell Co. (WI) Ltd.
- SITEL
- Sol Melia
- Sony Corporation
- Sterling Drugs International
- Stevedoring Services of America
- Swift and Company
- Swiss Bank Corp.
- Technoserve Inc.
- Union Fenosa, S.A. (Spain)
- UNISYS USA

ECONOMIC AND TRADE STATISTICS

APPENDIX A: Country Data - Panama

Population: 3,172.30 (2004 est.)
 Population Growth Rate: 1.8% annual (2003 est.)
 Religion: 82% Roman Catholic, 10% Evangelical, also has large populations of Jews, Hindus, Muslims and Buddhist. (Complete religious freedom)
 Government: Republican, Representative, Democratic, Unicameral Legislature
 Language: Spanish, English widely spoken in business community.
 Work Week: Monday-Friday and Saturday mornings depending on business

APPENDIX B: Domestic Economy (in millions of dollars unless otherwise indicated)

	2003	2004	2005 (E)
Current GDP (nominal)	12,933	14,204	15,125
Real GDP Growth Rate (%)	4.2%	7.6%	5.9%
Current GDP Per Capita (base 1996 U.S. Dollar)	3,913	4,084	N/A
Central Government Spending (as a % of GDP)	20%	20%(2)	27%
Inflation (CPI) (%)	1.2%	1.5%	2.9%
Unemployment (%)	12.8%	11.8%	9.6%
Foreign Exchange Reserves (4)	1,012.6	484.6	1,170
Balance of the Trust Fund (5)	1,260	1,216	1,164
Average Exchange Rate (Balboas to U.S. Dollars)	1.00	1.00	1.00
United States Government Assistance (2)	28.8	38.9(2)	30.5
Debt to GDP ratio	67%	70%	66%

Source: GOP Contralora and Ministry of Economy and Finance
 (1) Embassy estimates based upon official and private sources.

(2) Embassy estimates.

(3) Although no official 2004 estimate has been released, Embassy anticipates unemployment to be at or near 2003 levels.

(4) According to the IMF definition, since Panama does not have international reserves as conventionally defined, this includes Panama's reserve position at the IMF.

(5) The Trust fund contains the proceeds from the privatization of government enterprises.

APPENDIX C: Trade

	2003	2004	2005 (thru Sept.)
Total Country Merchandise Exports	5,072	891.1	756.7
Total Country Merchandise Imports	3,069.1	3,592.2	2,988.6
U.S. Share of Panama Imports	34.12%	28.9%	27.7%
U.S. Share of Panama Exports	50.4%	48.6%	42.8%

Source: Ministry of Commerce and Industry; Comptroller General; 2005

The figures above do not include trade to/from the Colon Free Zone (CFZ), which the GOP keeps separate from official GDP figures. In 2004, the CFZ imported USD 4.8 billion and re-exported USD 5.2 billion. These levels reflect an increase in free zone imports of 17.1 percent, and an increase in exports of 18.9 percent, compared to 2003. The total net contribution of the CFZ to the Panamanian trade balance for 2004 (Exports-Imports) was USD 571.8 million, up from 2003, when the surplus was USD 420.4 million.

APPENDIX D: Investment Statistics

Foreign Direct Investment (FDI) in Panama
 1997-2005

(In US\$ millions and as percent of GDP)

Year	FDI	GDP	Stock/GDP
1997	1,300.2	9,730	13.36%
1998	1,218.7	10,935	11.14%
1999	517	11,391	4.54%
2000	623.8	11,938	5.23%
2001	467.1	12,272	3.81%
2002	98.6	12,862	0.77%
2003	791.5	12,933	6.12%
2004	1,012.3	14,204	7.12%
2005	507.9	15,125	3.36%

Foreign Investment in Panama
By Country or Area of Origin 2002

	US\$ Thousands	Percent of total
United States	\$142,156	37.6%
Germany	\$35,362	9.4%
Colombia	\$26,048	6.9%
Spain	\$25,539	6.8%
United Kingdom	\$20,760	5.5%
France	\$19,254	5.1%
Taiwan	\$16,899	4.5%
Switzerland	\$3,940	1.0%
South Korea	\$2,587	0.7%
Italy	\$737	0.2%
Sweden	\$323	0.1%
Others	\$84,457	22.3%
Total	\$378,062	100%

Foreign Direct Investment
By Sector 2004

	US\$ Millions	Percent of Total %
Colon Free Zone Businesses	212.3	21%
Banks, Int'l License	38.8	3.8%
Banks, General License	326.0	32.2%
Other Businesses	435.2	43%
Total	1,012.3	100%

Source: GOP Comptroller's Office